

REPORT OF  
FINANCIAL EXAMINATION

**MISSOURI DENTAL TRUST**

AS OF  
SEPTEMBER 30, 2004



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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February 17, 2005  
St. Louis, MO

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Mr. Finke:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of the

**Missouri Dental Trust**

also referred to as the "Trust". The examination was conducted at the Trust's home office at 25254 Walnut Street, Bell City, Missouri, 63735, telephone number (573) 733-4444. This examination began on February 14, 2005 and concluded February 17, 2005.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope financial examination of the Missouri Dental Trust was performed as of October 31, 2000.

The current full scope financial examination covers the period from October 1, 2000, through September 30, 2004. This examination also included material transactions and/or events occurring after September 30, 2004.

## **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Trust's certified public accountant were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

## **Comments Previous Examination**

Listed below are the comments and recommendations taken from the prior Report of Financial Examination as of October 31, 2000. The responses or actions taken by the Trust are also described below.

### *Comment: Comments Prior Examination*

“It is recommended that the Trust take steps to raise its net worth to a positive level by December 31, 2001, to avoid the possible dissolution of the Trust. It is also recommended that the Trust submit a projection of premiums and expenses to the Missouri Department of Insurance illustrating the accomplishment of a positive level of surplus by December 31, 2001. In addition, the Trust should continue to increase surplus until it has met its above noted commitment of “two times the incurred but unreported claims” or approximately \$60,000.”

*Association response:*

“The following is a projection of activities until December 31, 2001.

	Premiums	Claims
August-01	24,896	31,946
September-01	24,896	25,387
October-01	28,935	20,947
November-01	28,935	26,754
December-01	28,935	19,859

*Current findings:*

Over the past three years, the Trust’s surplus has increased from \$56,081 to \$89,923 to \$99,191.

*Comment: Comments Prior Examination*

“The Trust has committed to the implementation of a conflict of interest policy. To date, no such policy has been developed. It is recommended that the Trust follow through with its commitment to implement a policy requiring trustees and officers to disclose any potential conflicts of interest.”

*Association response:*

None

*Current findings:*

On November 7, 2001, the Board adopted a conflict of interest policy. The Trust does not require Board members to affirm their awareness of and compliance with the conflict of interest policy. It is recommended that the Trust require Board members to annually complete statements indicating awareness of and compliance with the conflict of interest policy.

*Comment: Corporate Records*

“It is recommended that the Trust amend its fiscal year as defined in the articles of association and bylaws to correspond to the Trust’s actual fiscal year of October 1 to September 30. All amendments to articles of association and bylaws must be properly filed with the Missouri Department of Insurance as prescribed by Section 537.640 RSMo (Director of insurance to examine).

“The Trust could not locate a copy of its letter from the Internal Revenue Service stating that the Trust is exempt from paying Federal income taxes. It is recommended that the Trust obtain a copy of this letter for record keeping purposes.”

*Association response:*

“It was assumed that the fiscal year was amended in the bylaws because of trustee action, which is attested in the minutes of said meeting. The bylaws will be amended and a copy properly filed with the Department of Insurance.

“The Trust will contact the Internal Revenue Service to obtain proof of tax status.”

*Current findings:*

The fiscal year has been corrected to October 1<sup>st</sup> through September 30<sup>th</sup>.

The Trust has obtained proof of its tax-exempt status.

*Comment: Comments Prior Examination*

“It is recommended that the Trust institute a procedure where Delta Dental Plan of Missouri mails the Trust a summary of premium billings summarized by school district in order for the Trust to compare billed amounts to amounts received. The Trust should retain this summary for documentation purposes.”

*Association response:*

“The Trust will request a monthly premiums billing summary by school district from Delta Dental. This monthly billing will be kept for at least three years.”

*Current findings:*

Monthly premiums billing summaries by school district were available for the period under current examination.

*Comment: Policy Forms & Underwriting and Treatment of Policyholders*

“The Trust could not locate copies of its participation agreements with some of its members. It is recommended that the Trust obtain copies of the executed agreements with each of its members and retain these documents in a permanent file.”

*Association response:*

“The Trust will locate the participation agreement with each school involved with the Trust. If the participation agreements cannot be located, they will be re-executed. These agreements will be placed in the permanent file in the office of Kenneth C. McManaman.”



*Current findings:*

The Trust was able to provide copies of all participation agreements except for Pilot Grove C-4 School District. It is recommended that the Trust secure a participation agreement with Pilot Grove C-4 School District.

*Comment: Accounts & Records*

“The Trust is directed to submit a financial report containing a statement of activities in compliance with Section 537.640 RSMo (Director of insurance to examine) in order to receive renewal of its license to transact business in 2001. The financial report should coincide with the Trust’s fiscal account year. It is further recommended that the Trust retain the services of a certified public accountant or otherwise qualified person to compile these financial statements.”

*Association response:*

“The Trust will file a financial report to the Director of Insurance with its application for renewal. A CPA will complete the report.”

*Current finding:*

For the period under examination, the Trust has employed Schott and VanDeVen, CPA (n/k/a VanDeVen CPA) to compile their annual financial statement. The statement coincides with the Trust’s fiscal year.

*Comment: Turnover of Treasurer Position*

“It is recommended that the Trust develop a policy and procedures manual describing the types of information to be retained by the Treasurer and the format in which documentation is maintained. This would help achieve consistency in record keeping.”

*Association response:*

“The Trust will develop a policy and procedure manual for the position of treasure(sic) of the Trust.”

*Current finding:*

On November 7, 2001 the Board adopted a policy outlining the duties of the Association Treasurer.

## **HISTORY**

### **General**

The Trust was formed in May 1988 under the provisions of Chapter 537 RSMo (Risk Management for Public Entities) for the purpose of providing dental care benefits for eligible and participating employees of members of the Trust. Membership in the Trust is restricted to public school districts located in southeast Missouri. The Trust commenced operations in July 1988, at which time 15 school districts formed the Trust. Currently there are 14 member school districts in the Trust.

### **Capital Stock**

The Trust is a not-for-profit entity and has no capital stock.

### **Dividends**

The Trust has not declared or paid any dividends since inception.

## **Management**

A seven-member Board of Trustees manages the affairs of the Trust. Trustees are elected at the annual meeting of the membership. Trustees serve a three-year term. The Board of Trustees serving at September 30, 2004 included the following:

<u>District</u>	<u>Representative</u>
Advance	Mike Redman
Bell City	Rhonda Niemczyk
Delta	Tom Allen
East Prairie	Scott Downing
Scott County	Don Moore
Southland	Raymond Lasley
Woodland	Dennis Parham

Officers serving at September 30, 2004 were as follows:

<u>Name</u>	<u>Title</u>
Raymond Lasley	President
Scott Downing	Secretary
Rhonda Niemczyk	Treasurer

## **Conflict of Interest**

On November 7, 2001, the Trust adopted a conflict of interest policy that applies to members of the Board. The Trust does not require Board members to affirm their awareness of and compliance with the conflict of interest policy. It is recommended that the Trust require Board members to annually complete statements indicating awareness of and compliance with the conflict of interest policy.

## **Corporate Records**

The articles of association and the bylaws of the Trust were reviewed. The bylaws were amended during the current examination period. The amendments to the bylaws increased the size of the Board of Directors from five to seven and changed the fiscal year to October 1<sup>st</sup> through September 30<sup>th</sup>.

The minutes of the meetings of the Board of Trustees were reviewed for the period under examination. The minutes appear to properly support the applicable transactions and events. The Board reviewed and approved the financial examination report as of October 31, 2000 on December 5, 2001.

The bylaws require the presence of 7 members, in person or by proxy, to constitute a quorum at board meetings. The minutes indicate that during the current period under examination there were six meetings at which a quorum was not present. It is recommended that the Board secure a quorum at all meetings where the business of the Trust will be transacted.

## **AFFILIATED COMPANIES**

The Trust does not have any affiliates and thus is not subject to Chapter 382 RSMo (Insurance Holding Companies).

## **FIDELITY BOND AND OTHER INSURANCE**

The Trust's Treasurer is covered under a blanket employee dishonesty policy issued by Missouri United School Insurance Council (MUSIC). The limit of coverage is \$1,000,000. This coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC. The Trust does not own any real or personal property and has no requirements for other coverage.

## **EMPLOYEE BENEFITS**

This section is not applicable because the Trust does not have any employees.

## **STATUTORY DEPOSITS**

The Trust is not required to establish a statutory deposit with the state of Missouri or any other states.

## **TERRITORY AND PLAN OF OPERATIONS**

### **Territory and Plan of Operation**

The Trust is licensed by the Missouri Department of Insurance under Chapter 537 RSMo, Risk Management for Public Entities. Membership in the Trust is restricted to school districts located in southeast Missouri. At September 30, 2004, there were fourteen member school districts in the Trust.

### **Policy Forms & Underwriting; Advertising and Treatment of Policyholders**

Members of the Trust are required to sign an “Employee Benefit Plan and Trust Participation Agreement” upon entering the Trust. The agreement outlines the duties of each party and describes the methods of withdrawal from or termination of the Trust. The agreement also allows for additional assessments if necessary to fund the Trust’s obligation. As noted above, the Trust could not provide a copy of the participation agreement with Pilot Grove C-4 School District. It is recommended that the Trust secure a participation agreement with Pilot Grove C-4 School District.

The Trust has only one plan benefit document that is issued to all member school districts. The dental benefits provided include basic dental care, orthodontic services and other various services. The deductibles and co-payments vary with the type of service provided

The Trust is not required under Chapter 537 RSMo to submit its policy forms or premium rates to the Missouri Department of Insurance, nor is it required to maintain a log of complaints submitted to the Trust by its members.

## **REINSURANCE**

### **Assumed**

None

### **Ceded**

None.

## **ACCOUNTS AND RECORDS**

### **General**

The Trust maintains its financial records on a cash basis. The Trust does not maintain a general ledger. The fiscal-year financial statements are compiled by Schott and VanDeVen, CPA (n/k/a VanDeVen, CPA). The CPA records year-end accrual entries. Workpapers of the September 30, 2004 compilation were reviewed and used as deemed appropriate during the course of the examination.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Trust as of September 30, 2004, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Trust and noted in the workpapers for each individual financial statement item.

### **ASSETS**

Cash	<u>\$ 125,676</u>
Total Assets	<u><u>\$ 125,676</u></u>

### **LIABILITIES, NET ASSETS AND OTHER FUNDS**

Claim Reserves	\$ 23,785
Accounts Payable	<u>2,700</u>
Total Liabilities	\$ 26,485
 Net Assets (Surplus)	 <u>\$ 99,191</u>
Total Liabilities and Net Assets	<u><u>\$ 125,676</u></u>

## STATEMENT OF INCOME

### REVENUES

Premiums earned	\$ 365,482
Interest income	<u>1,444</u>
Total Revenues	\$ 366,926

### EXPENSES

Claims incurred	\$ 321,089
Administrative insurance services	35,016
Legal and accounting	1,456
Licenses	-
Bank charges	-
Postage	<u>97</u>
Total Expenses	\$ 357,658

Net income	<u>\$ 9,268</u>
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## CHANGE IN NET ASSETS

Prior Year Net Assets	\$ 89,923
Net Income	<u>9,268</u>
Current Year Net Assets	<u>\$ 99,191</u>



## **NOTES TO FINANCIAL STATEMENTS**

None

### **EXAMINATION CHANGES**

None

### **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

#### **1. Comments Prior Examination/Conflict of Interest Page 3/Page 8**

It is recommended that the Trust require Board members to annually complete statements indicating awareness of and compliance with the conflict of interest policy.

#### **2. Comments Prior Examination/Policy Forms and Underwriting Page 5/Page 10**

The Trust was able to provide copies of all participation agreements except for Pilot Grove C-4 School District. It is recommended that the Trust secure a participation agreement with Pilot Grove C-4 School District.

#### **3. Corporate Records Page 9**

It is recommended that the Board secure a quorum at all meetings where the business of the Trust will be transacted.

### **SUBSEQUENT EVENTS**

None


## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and employees of the Missouri Dental Trust during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

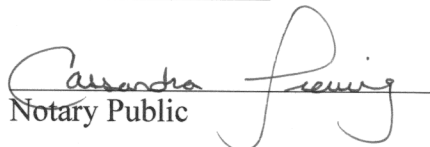
State of Missouri )  
                              ) ss  
County of Cole )

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Trust, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
\_\_\_\_\_  
Thomas J. Cunningham, CFE, CPA  
Examiner-in-Charge  
Missouri Department of Insurance

Sworn to and subscribed before me this 15 day of April, 2005.  
My commission expires:


February 3, 2009

  
\_\_\_\_\_  
Cassandra Grewing  
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
\_\_\_\_\_  
J. Douglas Conley,  
CFE, FLMI, CIE, AIAF, ARe  
Audit Manager  
Missouri Department of Insurance

Missouri Dental Trust  
25254 Walnut Street  
Bell City, MO 63735  
April 20, 2005

Kirk Schmidt, CFE, CPA  
Department of Insurance  
P. O. Box 690  
Jefferson City, MO 65102-0690

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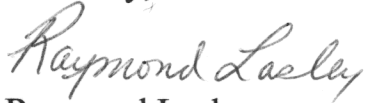
Dear Mr. Schmidt:

This letter is in response to the Examination Report of Missouri Dental Trust dated March 29, 2005.

1. The board members of the Trust will complete a statement indicating awareness of and compliance with the conflict of interest policy. This should be completed by May 15, 2005. The trustee readopted the conflict of interest policy at the April 15, 2005, meeting.
2. The Pilot Grove C-4 School District has another name. They sometimes do business under the name of Cooper County C-4. I will determine if a participation agreement has been executed under this name. If one has not, a new one will be sent to the Pilot Grove C-4 School District for completion.
3. I think there is a misunderstanding. The Trustees meet as needed to make policy changes, set rates for the trust, and monitor the activities of the trust, but the superintendents of the participating schools are invited to have a part in the monthly meetings. There may not have been a quorum of Trustees at each of the monthly meetings, but in the open meetings every member is a voting participant. The president of the trustees or another officer runs the monthly meetings. The normal

monthly business of the trust is completed at these meeting but no policy issues are addressed. The monthly bills are paid and there is usually only one bill each month. This is one way we keep all the participants informed about the operation of the trust. There is usually a majority of members at the open monthly meetings. I do not know which six meetings are referred to in the report but I do not remember one in which a quorum was not present. In the future, the trust will secure a quorum of the trustee at these monthly meetings within the general membership to transact business.

Sincerely,

A handwritten signature in cursive script that reads "Raymond Lasley".

Raymond Lasley

President